

DAVITA HEALTHCARE PARTNERS INC.  
Form 10-Q  
August 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

For the Quarterly Period Ended June 30, 2016

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-14106

DAVITA HEALTHCARE PARTNERS INC.

2000 16th Street

Denver, CO 80202

Telephone number (303) 405-2100

Delaware  
(State of incorporation) 51-0354549  
(I.R.S. Employer  
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

As of August 5, 2016, the number of shares of the Registrant’s common stock outstanding was approximately 206.9 million shares.

DAVITA HEALTHCARE PARTNERS INC.

INDEX

	Page No.
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Condensed Consolidated Financial Statements:	
<u>Consolidated Statements of Income for the three and six months ended June 30, 2016 and June 30, 2015</u>	1
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and June 30, 2015</u>	2
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015</u>	4
<u>Consolidated Statements of Equity for the six months ended June 30, 2016 and for the year ended December 31, 2015</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	54
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	55
Item 1A. <u>Risk Factors</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
Item 6. <u>Exhibits</u>	83
<u>Signature</u>	84

Note: Items 3, 4 and 5 of Part II are omitted because they are not applicable.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Patient service revenues	\$2,570,654	\$2,363,579	\$5,048,392	\$4,635,394
Less: Provision for uncollectible accounts	(111,428 )	(105,965 )	(220,633 )	(205,129 )
Net patient service revenues	2,459,226	2,257,614	4,827,759	4,430,265
Capitated revenues	897,826	866,190	1,784,873	1,716,705
Other revenues	360,599	310,814	686,155	575,613
Total net revenues	3,717,651	3,434,618	7,298,787	6,722,583
Operating expenses and charges:				
Patient care costs and other costs	2,671,025	2,446,076	5,253,358	4,808,688
General and administrative	386,895	347,960	773,324	689,761
Depreciation and amortization	180,381	158,843	349,736	312,632
Provision for uncollectible accounts	3,566	2,159	6,083	3,986
Equity investment loss (income)	505	(5,033 )	(882 )	(7,941 )
Goodwill impairment charges	176,000	4,065	253,000	4,065
Gain on sales of business interests, net	(29,791 )	—	(29,791 )	—
Settlement charge	—	—	—	495,000
Total operating expenses and charges	3,388,581	2,954,070	6,604,828	6,306,191
Operating income	329,070	480,548	693,959	416,392
Debt expense	(102,894 )	(104,248 )	(205,778 )	(201,640 )
Debt redemption charges	—	(48,072 )	—	(48,072 )
Other income, net	3,215	2,311	6,191	1,778
Income before income taxes	229,391	330,539	494,372	168,458
Income tax expense	134,888	122,762	261,710	36,829
Net income	94,503	207,777	232,662	131,629
Less: Net income attributable to noncontrolling interests	(41,121 )	(37,300 )	(81,846 )	(71,769 )
Net income attributable to DaVita HealthCare Partners Inc.	\$53,382	\$170,477	\$150,816	\$59,860
Earnings per share:				
Basic net income per share attributable to DaVita HealthCare				
Partners Inc.	\$0.26	\$0.80	\$0.74	\$0.28
Diluted net income per share attributable to DaVita HealthCare				
Partners Inc.	\$0.26	\$0.78	\$0.73	\$0.27

Weighted average shares for earnings per share:

Basic	204,497,970	212,991,606	204,432,315	213,188,268
Diluted	208,047,172	217,606,198	207,987,530	217,790,617

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$94,503	\$207,777	\$232,662	\$131,629
Other comprehensive (loss) income, net of tax:				
Unrealized losses on interest rate swap and cap agreements:				
Unrealized losses on interest rate swap and cap agreements	(2,616 )	(2,453 )	(8,085 )	(8,213 )
Reclassifications of net swap and cap agreements realized				
losses into net income	448	789	913	1,601
Unrealized gains (losses) on investments:				
Unrealized gains (losses) on investments	638	(99 )	867	283
Reclassification of net investment realized gains into				
net income	—	(16 )	(93 )	(173 )
Foreign currency translation adjustments	(4,844 )	5,025	6,337	(12,860 )
Other comprehensive (loss) income	(6,374 )	3,246	(61 )	(19,362 )
Total comprehensive income	88,129	211,023	232,601	112,267
Less: Comprehensive income attributable to noncontrolling				
interests	(41,270)	(37,300 )	(81,995 )	(71,769 )
Comprehensive income attributable to DaVita HealthCare Partners				
Inc.	\$46,859	\$173,723	\$150,606	\$40,498

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share data)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,283,416	\$ 1,499,116
Short-term investments	394,166	408,084
Accounts receivable, less allowance of \$279,429 and \$264,144	1,875,403	1,724,228
Inventories	197,388	185,575
Other receivables	558,081	435,885
Other current assets	187,763	190,322
Income taxes receivable	—	60,070
Total current assets	4,496,217	4,503,280
Property and equipment, net of accumulated depreciation of \$2,622,476 and \$2,397,007	2,972,407	2,788,740
Intangible assets, net of accumulated amortization of \$852,860 and \$770,691	1,631,001	1,687,326
Equity investments	64,420	73,368
Long-term investments	102,374	94,122
Other long-term assets	64,254	73,560
Goodwill	9,360,957	9,294,479
	\$ 18,691,630	\$ 18,514,875
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 504,353	\$ 513,950
Other liabilities	840,745	682,123
Accrued compensation and benefits	807,135	741,926
Medical payables	300,564	332,102
Current portion of long-term debt	144,183	129,037
Income taxes payable	48,682	—
Total current liabilities	2,645,662	2,399,138
Long-term debt	8,957,257	9,001,308
Other long-term liabilities	420,776	439,229
Deferred income taxes	772,329	726,962
Total liabilities	12,796,024	12,566,637
<b>Commitments and contingencies:</b>		
Noncontrolling interests subject to put provisions	936,903	864,066
<b>Equity:</b>		
Preferred stock (\$0.001 par value, 5,000,000 shares authorized; none issued)		
Common stock (\$0.001 par value, 450,000,000 shares authorized;	217	217
217,338,629 and 217,120,346 shares issued and 206,904,375 and 209,754,247		

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shares outstanding, respectively)		
Additional paid-in capital	1,047,820	1,118,326
Retained earnings	4,507,651	4,356,835
Treasury stock (10,434,254 and 7,366,099 shares, respectively)	(749,598 )	(544,772 )
Accumulated other comprehensive loss	(60,036 )	(59,826 )
Total DaVita HealthCare Partners Inc. shareholders' equity	4,746,054	4,870,780
Noncontrolling interests not subject to put provisions	212,649	213,392
Total equity	4,958,703	5,084,172
	\$ 18,691,630	\$ 18,514,875

See notes to condensed consolidated financial statements.



## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Six months ended	
	June 30,	2015
	2016	2015
Cash flows from operating activities:		
Net income	\$232,662	\$131,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Settlement charge	—	495,000
Settlement payments	—	(493,775 )
Depreciation and amortization	349,736	312,632
Debt redemption charges	—	48,072
Goodwill impairment charges	253,000	4,065
Stock-based compensation expense	23,717	28,299
Tax benefits from stock award exercises	23,658	28,040
Excess tax benefits from stock award exercises	(10,604 )	(16,913 )
Deferred income taxes	19,952	4,418
Equity investment income, net	14,275	5,257
Gain on sales of business interests, net	(29,791 )	—
Other non-cash charges	23,120	20,653
Changes in operating assets and liabilities, other than from acquisitions and divestitures:		
Accounts receivable	(104,005 )	(142,950 )
Inventories	(9,213 )	(22,780 )
Other receivables and other current assets	(107,610 )	(50,362 )
Other long-term assets	(431 )	378
Accounts payable	22,809	50,823
Accrued compensation and benefits	41,098	(26,316 )
Other current liabilities	112,825	177,733
Income taxes	121,972	(109,460 )
Other long-term liabilities	(31,531 )	(2,912 )
Net cash provided by operating activities	945,639	441,531
Cash flows from investing activities:		
Additions of property and equipment	(358,627 )	(290,873 )
Acquisitions	(473,314 )	(45,059 )
Proceeds from asset and business sales	17,393	3,415
Purchase of investments available for sale	(7,873 )	(3,872 )
Purchase of investments held-to-maturity	(518,965 )	(1,039,632 )
Proceeds from sale of investments available for sale	5,337	1,550
Proceeds from investments held-to-maturity	545,685	434,684
Purchase of equity investments	(8,785 )	(7,550 )

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Proceeds from sale of equity investments	40,920	—
Net cash used in investing activities	(758,229 )	(947,337 )
Cash flows from financing activities:		
Borrowings	26,134,952	28,144,986
Payments on long-term debt and other financing costs	(26,196,185)	(27,476,994)
Deferred financing and debt redemption costs	(188 )	(58,539 )
Purchase of treasury stock	(274,926 )	(84,113 )
Distributions to noncontrolling interests	(94,153 )	(79,040 )
Stock award exercises and other share issuances, net	9,465	4,680
Excess tax benefits from stock award exercises	10,604	16,913
Contributions from noncontrolling interests	13,117	18,040
Purchase of noncontrolling interests	(6,240 )	(10,840 )
Net cash (used in) provided by financing activities	(403,554 )	475,093
Effect of exchange rate changes on cash and cash equivalents	444	(793 )
Net decrease in cash and cash equivalents	(215,700 )	(31,506 )
Cash and cash equivalents at beginning of the year	1,499,116	965,241
Cash and cash equivalents at end of the period	\$1,283,416	\$933,735

See notes to condensed consolidated financial statements.

## DAVITA HEALTHCARE PARTNERS INC.

## CONSOLIDATED STATEMENTS OF EQUITY

(unaudited)

(dollars and shares in thousands)

	Non-controlling DaVita HealthCare Partners Inc. Shareholders' Equity							Non-controlling interests not subject to put provisions		
	Non-controlling interests subject to put provisions	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total			
Balance at December 31, 2014	\$829,965	215,641	\$216	\$1,108,211	\$4,087,103	—	\$—	\$(25,017)	\$5,170,513	\$189,798
Comprehensive income:										
Net income	96,510				269,732				269,732	61,168
Other comprehensive loss								(34,809)	(34,809)	( )
Stock purchase shares issued		—	—	(6,079)	( )	414	30,608		24,529	
Stock unit shares issued		348	—	—					—	
Stock-settled SAR shares issued		1,131	1	(1)	( )					